

**REPORT OF THE AUDIT OF THE
LYON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LYON COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Lyon County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The county had total net assets of \$4,460,151 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,257,239 in its governmental activities as of June 30, 2005, with total net assets of \$2,850,148. In its enterprise fund, total net cash and cash equivalents were \$436,003 with total net assets of 1,610,003. Total debt principal as of June 30, 2005, was \$6,136,215 with \$401,501 due within the next year.

Deposits:

The County's deposits were insured and collateralized by bank securities during fiscal year 2005.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Sara Boyd, Lyon County Judge/Executive
Members of the Lyon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lyon County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Lyon County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Sara Boyd, Lyon County Judge/Executive
Members of the Lyon County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lyon County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 22, 2006, on our consideration of Lyon County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 22, 2006

LYON COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Sara Boyd	County Judge/Executive
Steve Cruce	Magistrate
Buddy Nichols	Magistrate
Charles Ferguson	Magistrate

Other Elected Officials:

Lindell Choat	County Attorney
Hank O'Bryan	Jailer
Sarah Defew	County Clerk
Rebecca Howard	Circuit Court Clerk
Kent Murphy	Sheriff
Janice Stokes	Property Valuation Administrator
Ronnie Patton	Coroner

Appointed Personnel:

Denise Sutton	County Treasurer
JoAnne Dean	Finance Officer

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P.O. BOX 598
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Commonwealth of Kentucky

Sara J. Boyd
LYON COUNTY JUDGE / EXECUTIVE



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Management's Discussion and Analysis **June 30, 2005**

Lyon County, Kentucky offers readers of these financial statements a narrative overview and analysis of the financial activities of Lyon County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented herein in conjunction with other information furnished in the letter of transmission and the notes to the financial statements.

Financial Highlights.

- Current Assets - Primary Government were \$2,622,242; Current Assets - Governmental Activities were \$2,186,239; Current Assets - Business-Type Activities were \$436,003.
- Capital Assets - Primary Government were \$7,903,124; Capital Assets - Governmental Activities were \$2,399,124; Capital Assets - Business-Type Activities were \$5,504,000.
- Primary Government's Net Assets were \$4,460,151; Governmental Activities Net Assets were \$2,850,148; Business-Type Activities Net Assets were \$1,610,003.
- Total debt principal is \$6,136,215; Financing obligations due from Governmental Activities are \$1,806,215; Bonded debt due from Business-Type Activities is \$4,330,000.

Overview of the Financial Statements.

The Management's Discussion and Analysis section is intended to serve as an introduction to the County's basic financial statements, which consists of the two government-wide financial statements, the various fund financial statements, the notes to the financial statements, and other supplemental information. The County's Financial Statements are made up of the following:

Government-wide Financial Statements. The government-wide financial statements consist of a statement of net assets and a statement of activities. These two statements provide information about the activities of the County "as a whole" and present current and long-term assets and liabilities (statement of net assets) and revenue and expenses (statement of activities). The statement of net assets is designed to help the reader determine whether the County's financial position is improving or deteriorating from year to year. The statement of activities is designed to help the reader determine the amount by which net assets changed from the prior year and possibly why the change occurred.

Fund Financial Statements. The fund financial statements focus on the individual funds of the County's government. These fund financial statements report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds.

Governmental Funds. Governmental funds are used to report most of the County's basic services. These funds focus on the revenues coming in and expenditures going out on a modified cash basis. These funds provide a short-term view of the County's operations. The County currently has four major governmental funds, (General Fund, Road Fund, Jail Fund, & HB 577 Fund) with the remaining funds classified as non-major (LGEA, Emergency 911 & Poor Farm). The County adopts a budget for each of these governmental funds.

Proprietary Funds. Proprietary funds are used to report operations the County treats as business-type activities. The focus is to earn a profit or at least break-even. The County currently reports the Lyon County Public Properties as a proprietary fund.

Lyon County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Notes to the Financial Statements. The notes to the financial statements provide expanded explanation about the government-wide and fund financial statements and are essential to the reader in obtaining a better understanding of the information provided within the financial statements.

Required Supplementary Information. The budgetary comparison schedule for the general fund and other special revenue funds deemed "major" provide information that supplements the government-wide and fund financial statements.

Supplementary Information. The combining schedules provide information about the non-major funds of the County.

Lyon County reports all financial information on the modified cash basis of accounting. Under this basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense in the government-wide statement of activities. Furthermore, certain assets such as accounts receivable and certain liabilities such as accounts payable are not recorded in the financial statements. Readers should consider the limitations of this basis of accounting when reviewing the financial statements.

Financial Analysis of the County "as a Whole."

The financial information of the County "as a whole" is reported in the two government-wide financial statements. The government-wide financial statements include all activities for which the County is fiscally responsible. These activities, which make up the reporting entity, are the activities of the governmental funds and one blended component unit—Lyon County Public Properties Corporation; which is included in the financial statements as a business-type activity. One question to ask is whether the County is in better financial shape than last year. The two government-wide financial statements will help answer the question. The following sections provide condensed financial information derived from the two government-wide financial statements.

Statement of Net Assets.

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Assets						
Current assets	\$1,957,665	\$2,180,239	\$ 453,743	\$ 436,003	\$2,411,254	\$ 2,616,242
Note Receivable	\$ 83,000	\$ 77,000	0	0	\$ 83,000	\$ 77,000
Capital assets	\$1,914,647	\$2,399,124	\$5,596,666	\$5,504,000	\$7,511,313	\$ 7,903,124
Total Assets	\$3,955,312	\$4,656,363	\$6,050,409	\$5,940,003	\$10,005,721	\$10,596,366
Liabilities						
Current liabilities	\$ 202,501	\$ 211,501	\$ 185,000	\$ 190,000	\$ 387,501	\$ 401,501
Long-term liabilities	\$1,791,524	\$1,594,714	\$4,330,000	\$4,140,000	\$6,121,524	\$ 5,734,714
Total Liabilities	\$1,994,025	\$1,806,215	\$4,515,000	\$4,330,000	\$6,509,025	\$ 6,136,215
Net Assets						
Invested in capital assets, net of related debt	(\$79,378)	\$ 592,909	\$1,081,666	\$1,174,000	\$1,002,288	\$ 1,766,909
Restricted	\$ 296,111	0	\$ 453,743	\$ 436,003	\$ 749,854	\$ 436,003
Unrestricted	\$1,744,554	\$2,257,239	0	0	\$1,744,554	\$ 2,257,239
Total Net Assets	\$1,961,287	\$2,850,148	\$1,535,409	\$1,610,003	\$3,496,696	\$ 4,460,151

**Lyon County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Statement of Net Assets. (Continued)

At June 30, 2005, the majority of the County's assets (75%) were invested in capital assets (land, buildings, infrastructure, etc.). Current assets represent cash and current accounts receivable for all funds as of June 30, 2005.

Changes in Net Assets.

Governmental Activities. Net Assets increased by \$888,861 in fiscal year 2005. Key elements of this are as follows:

- Current assets and cash increased by \$222,574 due in part to an increase in road paving funds of \$125,000 and reimbursement received in FY 04-05 of \$230,000 for bills paid in 03-04 and a park grant of \$75,000.
- Investment in capital assets and infrastructure, net of debt increased \$672,287.
- Current and long-term liabilities decreased \$187,810 due to debt principal repaid.
- Total revenues were \$2,904,537 as reflected in the Statement of Activities.
- Total expenditures were \$2,015,676 as reflected in the Statement of Activities.

Business-type Activities. Net Assets increased by \$74,594 in fiscal year 2005. Key elements of this are as follows:

- Net Capital Assets increased due a reduction of debt principal.
- Investment in capital assets and infrastructure, net of debt increased \$92,334.
- Current and long-term liabilities decreased \$185,000, due to debt principal repaid.
- Total revenues were \$432,306 as reflected in the Statement of Activities.
- Total expenditures were \$357,712 as reflected in the Statement of Activities.

**Lyon County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Comparison of General Revenue by Source and Program Expenses by Function

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Revenue						
General Revenue	\$1,049,892	\$ 921,676	\$ 17,129	\$ 7,804	\$1,067,021	\$ 929,480
Charges for Services	\$49,453	\$ 60,920	\$395,951	\$424,502	\$ 445,404	\$ 485,422
Operating Grants and Contributions	\$1,515,920	\$1,096,998	0	0	\$1,515,920	\$1,096,998
Capital Grants and Contributions	0	\$ 824,943	0	0	0	\$ 824,943
Total Revenue	\$2,615,265	\$2,904,537	\$413,080	\$432,306	\$3,028,345	\$3,336,843
Expenses						
General Government	\$1,087,466	\$1,130,867	0	0	\$1,087,466	\$1,130,867
Protection to Persons and Property	\$ 269,981	\$ 256,324	0	0	\$ 269,981	\$ 256,324
General Health and Sanitation	\$ 93,423	\$ 124,670	0	0	\$ 93,423	\$ 124,670
Social Services	\$ 45,052	\$ 49,421	0	0	\$ 45,052	\$ 49,421
Recreation and Culture	\$ 108,320	\$ 58,958	0	0	\$ 108,320	\$ 58,958
Roads	\$ 308,365	\$ 395,436	0	0	\$ 308,365	\$ 395,436
Interest on Long-Term Debt	\$ 42,584	0	0	0	\$ 42,584	0
Public Properties Corporation	0	0	\$358,817	\$357,712	\$ 358,817	\$ 357,712
Total Expenses	\$1,955,191	\$2,015,676	\$358,817	\$357,712	\$2,314,008	\$2,373,388

**Lyon County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Financial Analysis of the County's Funds.

The Fund financial statements are reported by major funds and aggregate non-major funds. The County has four major governmental funds, three non-major governmental funds and an enterprise fund. The County's governmental funds reflect a combined fund balance of \$2,180,239. The County's enterprise fund reflects net assets of \$1,610,003.

- 1) The General Fund's ending fund balance is \$971,849, which consists of unreserved funds and is available for spending on day-to-day operations. The General Fund also has a note receivable from the Water District in the amount of \$77,000.
- 2) The Road Fund's ending fund balance is \$611,827. Fund balance increased by \$319,916 from prior year. This was due to receiving \$230,000 in county road aid due from the prior fiscal year.
- 3) The Jail Fund's ending fund balance is \$6,031. During the fiscal year, \$92,500 was transferred into the jail fund from the general fund to cover expenses.
- 4) The HB 577 Fund's ending fund balance is \$288,883. The County anticipates using these funds for courthouse renovation projects in the near future.
- 5) The non-major funds' ending fund balance is \$301,649. The County's non-major funds include the Local Government Economic Assistance Fund, Emergency 911 Fund, and Poor Farm Fund.
- 6) Lyon County Public Properties Corporation (PPC) is reported as a business-type activity of the County. The PPC's ending fund balance is \$436,003 and is restricted for debt service payments on the judicial building.

General Fund Budgetary Highlights.

The County amended the original budget by \$280,760 to reflect increases in prior year carryover and other accounts. Various expenditures were increased by a total of \$280,760 as well. Also, throughout the year, the County made various line item transfers within the budget to increase certain line items while subsequently decreasing other line items. These types of transactions have no effect on the budget's bottom line. Throughout the year, expenditures were on target with the budget and within the limits of revenue coming into the County.

The State Local Finance Officer does not require the Public Properties Corporations to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

Capital Assets.

The County's investment in capital assets (less accumulated depreciation) for its governmental and business-type activities as of June 30, 2005 was \$7,903,124. This investment in capital assets includes land and land improvements, construction in progress for park improvements, buildings, vehicles and equipment, and current infrastructure addition.

**Lyon County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Capital Assets. (Continued)

Major capital asset events during the 2005 fiscal year included:

- Park Renovations with total construction cost of \$345,646 paid during fiscal year 2005.
- Road improvement cost (Infrastructure) of \$149,485. This cost will be depreciated for the useful life of the asset.
- The County also purchased one new vehicle, road equipment, and other equipment.

Lyon County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Infrastructure	\$244,910	\$352,234	0	0	\$244,910	\$352,234
Land	\$232,750	\$232,750	0	0	\$232,750	\$232,750
Land Improvements	0	\$508,109	0	0	0	\$508,109
Construction In Progress	\$175,107	0	0	0	\$175,107	0
Buildings	\$922,321	\$902,953	\$5,596,666	\$5,504,000	\$6,518,987	\$6,406,953
Vehicles	\$150,332	\$154,535	0	0	\$150,332	\$154,535
Equipment	\$189,227	\$248,543	0	0	\$189,227	\$248,543
Total Capital Assets	\$1,914,647	\$2,399,124	\$5,596,666	\$5,504,000	7,511,313	\$7,903,124

Debt.

Short-Term Debt. For the fiscal year 2005, the County participated in the Kentucky Association of Counties Advance Revenue Program (KARP). Under the KARP program, the County invested \$556,200 for the General Fund and \$5,000 for the Road Fund. The General Fund earned interest of \$7,782 and incurred interest expense of \$6,074. The Road Fund earned interest of \$70 and incurred interest expense of \$55. All principal and interest amounts associated with this program have been paid.

Long-Term Debt. At the end of the 2005 fiscal year, \$4,330,000 of bonded debt is outstanding under the County's enterprise fund for the judicial building. A principal payment of \$190,000 is due within the next year. Total outstanding financing obligations of \$1,806,215 are due from governmental funds as of June 30, 2005. Principal financing obligations payments of \$211,501 are due within the next year.

Other Matters.

While establishing the budget for fiscal year 2005-2006, the County considered many factors including the economy and mandated appropriations, both funded and unfunded. The County knows of no new taxes or new programs, which will affect the future.

**Lyon County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Request for Information.

This report is designed to provide a general overview of the County's financial condition for all interested citizens. Questions concerning any of the information contained in this report may be directed to Honorable Sara Boyd, County Judge/Executive; or Denise Sutton, County Treasurer, Lyon County, P.O. Box 882, Eddyville, KY 42038.

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LYON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

LYON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,180,239	\$ 436,003	\$ 2,616,242
Notes Receivable Due Within One Year	6,000		6,000
Total Current Assets	<u>2,186,239</u>	<u>436,003</u>	<u>2,622,242</u>
Noncurrent Assets:			
Notes Receivable Due In More Than One	71,000		71,000
Capital Assets - Net of Accumulated			
Depreciation			
Land	232,750		232,750
Land Improvements	508,109		508,109
Buildings	902,953	5,504,000	6,406,953
Vehicles	154,535		154,535
Equipment	248,543		248,543
Infrastructure Assets - Net			
of Depreciation	352,234		352,234
Total Noncurrent Assets	<u>2,470,124</u>	<u>5,504,000</u>	<u>7,974,124</u>
Total Assets	<u>4,656,363</u>	<u>5,940,003</u>	<u>10,596,366</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable		190,000	190,000
Financing Obligations Payable	211,501		211,501
Total Current Liabilities	<u>211,501</u>	<u>190,000</u>	<u>401,501</u>
Noncurrent Liabilities:			
Bonds Payable		4,140,000	4,140,000
Financing Obligations Payable	1,594,714		1,594,714
Total Noncurrent Liabilities	<u>1,594,714</u>	<u>4,140,000</u>	<u>5,734,714</u>
Total Liabilities	<u>1,806,215</u>	<u>4,330,000</u>	<u>6,136,215</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	592,909	1,174,000	1,766,909
Restricted For:			
Debt Service		436,003	436,003
Unrestricted	2,257,239		2,257,239
Total Net Assets	<u>\$ 2,850,148</u>	<u>\$ 1,610,003</u>	<u>\$ 4,460,151</u>

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

LYON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,130,867	\$ 6,696	\$ 759,670	\$ 13,051
Protection to Persons and Property	256,324	11,276	96,298	
General Health and Sanitation	124,670	40,598		
Social Services	49,421			
Recreation and Culture	58,958	2,350		
Roads	395,436		241,030	811,892
Total Governmental Activities	2,015,676	60,920	1,096,998	824,943
Business-type Activities:				
Public Properties Corporation	357,712	424,502		
Total Business-type Activities	357,712	424,502		
Total Primary Government	\$ 2,373,388	\$ 485,422	\$ 1,096,998	\$ 824,943

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

In Lieu Tax Payments

Telephone 911

Insurance Reimbursements

Court Settlement

Miscellaneous Revenues

Gain on Capital Assets Traded

Gain on Sale of Capital Assets

Financing Obligation Paid by Public Properties C

Interest Earned

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (351,450)	\$	\$ (351,450)
(148,750)		(148,750)
(84,072)		(84,072)
(49,421)		(49,421)
(56,608)		(56,608)
657,486		657,486
(32,815)		(32,815)
	66,790	66,790
	66,790	66,790
\$ (32,815)	\$ 66,790	\$ 33,975
\$ 347,164		\$ 347,164
62,201		62,201
56,629		56,629
37,540		37,540
308,975		308,975
8,080		8,080
3,216		3,216
3,968		3,968
34,906		34,906
17,280		17,280
4,212		4,212
5,000		5,000
32,505	7,804	40,309
921,676	7,804	929,480
888,861	74,594	963,455
1,961,287	1,535,409	3,496,696
\$ 2,850,148	\$ 1,610,003	\$ 4,460,151

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

LYON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	HB 577 Fund
ASSETS				
Cash and Cash Equivalents	\$ 971,849	\$ 611,827	\$ 6,031	\$ 288,883
Total Assets	<u>\$ 971,849</u>	<u>\$ 611,827</u>	<u>\$ 6,031</u>	<u>\$ 288,883</u>
FUND BALANCES				
Fund Balances:				
Reserved for:				
Encumbrances	\$ 1,051	\$ 4,142		\$
Unreserved:				
General Fund	970,798			
Special Revenue Funds		607,685	6,031	288,883
Total Fund Balances	<u>\$ 971,849</u>	<u>\$ 611,827</u>	<u>\$ 6,031</u>	<u>\$ 288,883</u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****June 30, 2005****(Continued)**

Non- Major Funds	Total Governmental Funds
<u>\$ 301,649</u>	<u>\$ 2,180,239</u>
<u>\$ 301,649</u>	<u>\$ 2,180,239</u>
	\$ 5,193
	970,798
<u>301,649</u>	<u>1,204,248</u>
<u>\$ 301,649</u>	<u>\$ 2,180,239</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets

Total Fund Balances	\$ 2,180,239
Notes Receivable	77,000
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	3,114,173
Accumulated Depreciation	(715,049)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported In the Funds.	
Due Within One Year - Financing Obligation Principal Payments	(211,501)
Due In More Than One Year - Financing Obligation Principal Payments	<u>(1,594,714)</u>
Net Assets Of Governmental Activities	<u>\$ 2,850,148</u>

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LYON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

LYON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>HB 577 Fund</u>
REVENUES				
Taxes	\$ 503,479	\$	\$	\$
In Lieu Tax Payments	308,975			
Licenses and Permits	6,696			
Intergovernmental	731,999	1,018,405	71,515	60,030
Charges for Services	42,948		7,025	
Miscellaneous	6,718	27,663	709	
Interest	14,889	10,572		3,456
Total Revenues	<u>1,615,704</u>	<u>1,056,640</u>	<u>79,249</u>	<u>63,486</u>
EXPENDITURES				
General Government	764,479			
Protection to Persons and Property	90,153		141,502	
General Health and Sanitation	119,238			
Social Services	41,921			
Recreation and Culture	422,184			
Roads		672,676		
Administration	300,397	88,435	25,050	
Total Expenditures	<u>1,738,372</u>	<u>761,111</u>	<u>166,552</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(122,668)</u>	<u>295,529</u>	<u>(87,303)</u>	<u>63,486</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	14,691			
Proceeds of Disposal of Capital Assets	727	23,955		
Transfers From Other Funds		432	92,500	
Transfers To Other Funds	(92,932)			
Total Other Financing Sources (Uses)	<u>(77,514)</u>	<u>24,387</u>	<u>92,500</u>	
Net Change in Fund Balances	(200,182)	319,916	5,197	63,486
Fund Balances - Beginning (restated)	1,172,031	291,911	834	225,397
Fund Balances - Ending	<u>\$ 971,849</u>	<u>\$ 611,827</u>	<u>\$ 6,031</u>	<u>\$ 288,883</u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 8,080	\$ 511,559
	308,975
	6,696
57,298	1,939,247
	49,973
	35,090
3,588	32,505
<u>68,966</u>	<u>2,884,045</u>
	764,479
24,809	256,464
	119,238
	41,921
	422,184
10,000	682,676
	413,882
<u>34,809</u>	<u>2,700,844</u>
<u>34,157</u>	<u>183,201</u>
	14,691
	24,682
	92,932
	<u>(92,932)</u>
	<u>39,373</u>
34,157	222,574
267,492	1,957,665
<u>\$ 301,649</u>	<u>\$ 2,180,239</u>

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LYON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

LYON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 222,574
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental Funds Report Capital Outlays as Expenditures. However, In the Statement of Activities the Cost of those Assets are Allocated over Their Estimated Useful lives and Reported as Depreciation Expense.	
Capital Outlay	634,525
Depreciation Expense	(116,756)
Book Value Assets Disposed	(33,292)
Notes Receivable Principal Received	(6,000)
The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds, Financial Obligations, While the Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds.	
These Transactions, however, Have No Effect on Net Assets.	(14,691)
Financing Obligations Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources.	
Financing Obligation-Principal Payments	<u>202,501</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 888,861</u></u>

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
STATEMENT OF NET ASSETS PROPRIETARY FUND - MODIFIED CASH BASIS
June 30, 2005

LYON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	<u>Business Type Activity</u>
	<u>Enterprise Fund</u>
	<u>Public Properties Corporation</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 436,003
Total Current Assets	<u>436,003</u>
Noncurrent Assets:	
Capital Assets:	
Building	6,060,000
Less Accumulated Depreciation	<u>(556,000)</u>
Total Noncurrent Assets	<u>5,504,000</u>
Total Assets	<u>5,940,003</u>
Liabilities	
Current Liabilities:	
Bonds Payable	<u>190,000</u>
Total Current Liabilities	<u>190,000</u>
Noncurrent Liabilities:	
Bonds Payable	<u>4,140,000</u>
Total Noncurrent Liabilities	<u>4,140,000</u>
Total Liabilities	<u>4,330,000</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	1,174,000
Restricted	
Debt Service	<u>436,003</u>
Total Net Assets	<u>\$ 1,610,003</u>

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

LYON COUNTY
STATEMENT OF REVENUE, EXPENSES, CHANGES IN FUND NET ASSETS - PROPRIETARY FUND
- MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>Enterprise Fund</u>
	<u>Public Properties Corporation</u>
Operating Revenues	
Rent Receipts	\$ 424,502
Total Operating Revenues	<u>424,502</u>
Operating Expenses	
Depreciation	<u>92,667</u>
Total Operating Expenses	<u>92,667</u>
Operating Income	<u>331,835</u>
Nonoperating Revenues (Expenses)	
Interest Income	7,804
Interest Payments	(258,219)
Miscellaneous	(1,826)
Debt Principal Payment on Behalf of Fiscal Court	<u>(5,000)</u>
Total Nonoperating Revenues (Expenses)	<u>(257,241)</u>
Change In Net Assets	74,594
Total Net Assets - Beginning	<u>1,535,409</u>
Total Net Assets - Ending	<u><u>\$ 1,610,003</u></u>

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

LYON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>Business Type Activity</u>
	<u>Enterprise Fund</u>
	<u>Public Properties Corporation</u>
Cash Flows From Operating Activities	
Rent Receipts	\$ 424,502
Net Cash Provided By Operating Activities	<u>424,502</u>
Cash Flows From Capital and Related Financing Activities	
Bond Principal	(185,000)
Bond Interest	(206,117)
Financing Obligations Principal	(5,000)
Financing Obligations Interest	(52,102)
Miscellaneous Payments	(1,827)
Net Cash (Used) By Capital and Related Financing Activities	<u>(450,046)</u>
Cash Flows From Investing Activities	
Interest Earned	7,804
Net Cash Provided By Investing Activities	<u>7,804</u>
Net (Decrease) in Cash and Cash Equivalents	(17,740)
Cash and Cash Equivalents - July 1, 2004	453,743
Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 436,003</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 331,835
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Depreciation Expense	<u>92,667</u>
Net Cash Provided By Operating Activities	<u><u>\$ 424,502</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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LYON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lyon County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the county is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Lyon County Public Properties Corporation

The Lyon County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within Lyon County's financial statements. All activities of the Public Properties Corporation are accounted for within a business-type fund.

Additional Lyon County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Lyon County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, and expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

HB 577 - The primary purpose of this fund is to account for additional fees and court costs assessed in circuit and district courts. The expenditures are restricted for courthouse debt service and administration expenses.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Emergency 911 Fund, and Poor Farm Fund, which are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquent date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund is rental income. Operating expenses for the enterprise fund include depreciation. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary fund:

The Lyon County Public Properties Corporation (PPC) Fund - is a blended component unit of the county. The Public Properties Corporation issues debt to build major facilities or additions. The Lyon County Public Properties Corporation has entered into a lease/sublease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (the "AOC"), in which the AOC wishes to use and sublease all or a portion of certain facilities owned or to be constructed by or on behalf of the County. The Governor's Office for Local Development does not require the county to report or budget these funds.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets added in the current year (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	10-50
Infrastructure	\$ 20,000	2-40

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The State Local Finance Officer does not require the Public Properties Corporation to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following are considered jointly governed organizations of the Lyon County Fiscal Court: Lyon County-Eddyville-Kuttawa Joint Tourism Commission, Lyon County Planning and Zoning Commission, Joint Lyon County Park Board and Pennyrile Westpark Industrial Development Authority.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government:	Primary Government		
	Beginning Balance	Increases	Decreases Ending Balance
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 232,750	\$	\$ 232,750
Construction In Progress	175,107	345,646	(520,753)
Total Capital Assets Not Being Depreciated	407,857	345,646	232,750
Capital Assets, Being Depreciated:			
Land Improvements		520,753	520,753
Buildings	1,190,856		1,190,856
Vehicles	336,684	28,591	345,045
Equipment	349,400	110,803	403,162
Infrastructure	272,122	149,485	421,607
Total Capital Assets Being Depreciated	2,149,062	809,632	2,881,423
Less Accumulated Depreciation For:			
Land Improvements		(12,644)	(12,644)
Buildings	(268,536)	(19,367)	(287,903)
Vehicles	(186,352)	(22,388)	(190,510)
Equipment	(160,172)	(20,196)	(154,619)
Infrastructure	(27,212)	(42,161)	(69,373)
Total Accumulated Depreciation	(642,272)	(116,756)	(715,049)
Total Capital Assets, Being Depreciated, Net	1,506,790	692,876	2,166,374
Governmental Activities Capital Assets, Net	\$ 1,914,647	\$ 1,038,522	\$ 2,399,124
<u>Business-Type Activities:</u>			
Capital Assets, Being Depreciated:			
Building	\$ 6,060,000	\$	\$ 6,060,000
Total Capital Assets Being Depreciated	6,060,000		6,060,000
Less Accumulated Depreciation For:			
Building	(463,333)	(92,667)	(556,000)
Total Accumulated Depreciation	(463,333)	(92,667)	(556,000)
Total Capital Assets, Being Depreciated, Net	5,596,667	(92,667)	5,504,000
Business-Type Activities Capital Assets, Net	\$ 5,596,667	\$ (92,667)	\$ 5,504,000

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 20,609
Protection to Persons and Property	10,805
General Health and Sanitation	5,432
Social Services	7,500
Recreation and Culture	18,703
Roads, Including Infrastructure	<u>53,707</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 116,756</u>

Business-Type Activities

Public Properties Corporation	<u>\$ 92,667</u>
Total Depreciation Expense - Business Activities	<u>\$ 92,667</u>

Note 4. Short-term Debt

A. General Fund

On June 9, 2004, Lyon County voted to participate in the Kentucky Association of Counties Advance Revenue Program (KARP) for the purchase of tax and revenue anticipation notes for the 2004-2005 fiscal year. As a result, \$556,200 was invested on behalf of the Lyon County General Fund with interest earnings of \$7,782 and interest expense of \$6,074. As of June 30, 2005, all principal and interest amounts associated with the notes had been paid.

B. Road Fund

On June 9, 2004, Lyon County voted to participate in the Kentucky Association of Counties Advance Revenue Program (KARP) for the purchase of tax and revenue anticipation notes for the 2004-2005 fiscal year. As a result, \$5,000 was invested on behalf of the Lyon County Road Fund with interest earnings of \$70 and interest expense of \$55. As of June 30, 2005, all principal and interest amounts associated with the notes had been paid.

Changes in Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Kentucky Advance Revenue Program	\$	\$ 561,200	\$ 561,200	\$	\$
Governmental Activities Short-term Liabilities	<u>\$ 0</u>	<u>\$ 561,200</u>	<u>\$ 561,200</u>	<u>\$ 0</u>	<u>\$ 0</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt

A. Public Properties Corporation First Mortgage Revenue Bonds

The Lyon County Public Properties Corporation issued First Mortgage Revenue Bonds, Series 1999 dated January 1, 1999 for \$5,180,000 to be used for the construction of an annex facility. Interest is payable semi-annually for 20 years and varies from 3.9 percent to 5.1 percent. The Lyon County Public Properties Corporation has leased the building to the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), and AOC is providing the debt service payments as prescribed in the aforementioned lease. As of June 30, 2005, Lyon County is in compliance with bond agreement. The principal balance as of June 30, 2005 was \$4,330,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2006	\$ 190,000	\$ 198,718
2007	200,000	191,117
2008	205,000	183,118
2009	215,000	174,712
2010	225,000	165,898
2011-2015	1,285,000	675,822
2016-2020	2,010,000	348,250
Totals	<u>\$ 4,330,000</u>	<u>\$ 1,937,635</u>

B. Financing Obligation Agreement - Waterlines

On December 16, 1991, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust in the amount of \$130,000 for funding of waterlines for the Lyon County Water District. On May 7, 2001, Lyon County refinanced the financing obligation principal in the amount of \$98,000 interest is payable monthly at a rate of 4.45 percent for 15 years. As of June 30, 2005, Lyon County is in compliance with the terms of the financing obligation agreement. The principal balance as of June 30, 2005 was \$77,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 6,000	\$ 4,259
2007	6,000	3,584
2008	6,000	3,270
2009	6,000	2,956
2010	7,000	2,620
2011-2015	38,000	7,385
2016	8,000	244
Totals	<u>\$ 77,000</u>	<u>\$ 24,318</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

C. Financing Obligation Agreement - Road Construction

On August 6, 1998, Lyon County entered into a financing obligation agreement with the Kentucky Area Development District for funding of road construction in the amount of \$1,405,000. Interest is payable semi-annually at a rate of 4.9 percent for 10 years. As of June 30, 2005, Lyon County is in compliance with the terms of the financing obligation agreement. The principal balance as of June 30, 2005 was \$490,000. Future financing obligation principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 155,000	\$ 24,010
2007	165,000	16,415
2008	170,000	8,330
Totals	<u>\$ 490,000</u>	<u>\$ 48,755</u>

D. Financing Obligation Agreement - Courthouse Project

On October 14, 1999, Lyon County entered into a financing obligation agreement with the Kentucky Area Development District for funding for the completion of a courthouse project in the amount of \$1,110,000. Interest is payable semi-annually at an average rate of 5.57 percent for 25 years. The debt service payments related to this project are being made by Administrative Office of the Courts. As of June 30, 2005, Lyon County is in compliance with the terms of the financing obligation agreement. These payments are being made by the Public Properties Corporation on behalf of the Fiscal Court. The principal balance as of June 30, 2005 was \$855,000. Future financing obligations principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 5,000	\$ 52,380
2007	5,000	52,105
2008	5,000	51,830
2009	5,000	51,555
2010	5,000	51,280
2011-2015	25,000	252,100
2016-2020	25,000	244,788
2021-2024	780,000	123,085
Totals	<u>\$ 855,000</u>	<u>\$ 879,123</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

E. Financing Obligation Agreement - Sheriff's Vehicle

On November 7, 2002, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a vehicle for the Sheriff's Office in the amount of \$22,688. Interest is payable monthly at a variable interests rates for 3 years. As of June 30, 2005, Lyon County is in compliance with the terms of the financing obligation agreement. The principal balance as of June 30, 2005 was \$3,307. Future financing obligation principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 3,307	\$ 22
Totals	<u>\$ 3,307</u>	<u>\$ 22</u>

F. Financing Obligation Agreement - Park Renovation

On June 8, 2004, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust for funding of construction at Lee S. Jones Park in the amount of \$400,000. Interest is payable monthly at a rate of 3.78 percent for 10 years. The principal balance as of June 30, 2005 was \$366,217. Future financing obligation principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 35,032	\$ 16,077
2007	36,329	14,455
2008	37,673	12,795
2009	39,067	11,055
2010	40,512	9,257
2011-2014	<u>177,604</u>	<u>17,613</u>
Totals	<u>\$ 366,217</u>	<u>\$ 81,252</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

G. Financing Obligation Agreement - Sheriff's Vehicle

On June 2, 2005, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a vehicle for the Sheriff's Office in the amount of \$14,691. Interest is payable monthly at a variable interests rates for 2 years. As of June 30, 2005, Lyon County is in compliance with the terms of the financing obligation agreement. The principal balance as of June 30, 2005 was \$14,691. Future financing obligation principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 7,162	\$ 637
2007	7,529	211
Totals	<u>\$ 14,691</u>	<u>\$ 848</u>

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 1,994,025</u>	<u>\$ 14,691</u>	<u>\$ 202,501</u>	<u>\$ 1,806,215</u>	<u>\$ 211,501</u>
Governmental Activities Long-term Liabilities	<u>\$ 1,994,025</u>	<u>\$ 14,691</u>	<u>\$ 202,501</u>	<u>\$ 1,806,215</u>	<u>\$ 211,501</u>
<u>Business-Type Activities:</u>					
Revenue Bonds	<u>\$ 4,515,000</u>	<u>\$</u>	<u>\$ 185,000</u>	<u>\$ 4,330,000</u>	<u>\$ 190,000</u>
Business-Type Activities Long-term Liabilities	<u>\$ 4,515,000</u>	<u>\$ 0</u>	<u>\$ 185,000</u>	<u>\$ 4,330,000</u>	<u>\$ 190,000</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Note Receivable

On May 7, 2001, Lyon County entered into a sublease agreement with the Lyon County Water District for the funding of waterlines. The County financed the waterlines through a lease agreement with KACOLT. The Water District then signed a sublease agreement with rental payments, due to the County, in the amount of the debt service requirements. Future receivables are as follows:

	<u>Amount</u>
Short-Term	\$ 6,000
Long-Term	<u>71,000</u>
Total Receivables	<u><u>\$ 77,000</u></u>

Note 7. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

For the fiscal year ended June 30, 2005, the County voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2005, Lyon County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Restatement of Beginning Balance

The net assets of Lyon County as previously reported are restated below in order to account for the omission of a note receivable and voided check.

	Governmental Activites	Business-Type Activities	Total Net Assets
Net Assets as of 6-30-04	\$ 1,878,133	\$ 1,535,409	\$ 3,413,542
Add Voided Check	154		154
Add Note Receivable	83,000		83,000
Net Assets as of 6-30-04 (Restated)	<u>\$ 1,961,287</u>	<u>\$ 1,535,409</u>	<u>\$ 3,496,696</u>

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LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 400,000	\$ 400,000	\$ 503,479	\$ 103,479
In Lieu Tax Payments	175,000	175,000	308,975	133,975
Licenses and Permits	7,500	7,500	6,696	(804)
Intergovernmental Revenue	643,074	747,914	731,999	(15,915)
Charges for Services	32,000	32,000	42,948	10,948
Miscellaneous	15,000	15,000	6,718	(8,282)
Interest	11,800	11,800	14,889	3,089
Total Revenues	1,284,374	1,389,214	1,615,704	226,490
EXPENDITURES				
General Government	802,002	806,109	764,479	41,630
Protection to Persons and Property	26,728	123,337	75,462	47,875
General Health and Sanitation	149,546	149,567	119,238	30,329
Social Services	31,500	46,170	41,921	4,249
Recreation and Culture	486,000	481,330	422,184	59,146
Capital Projects	10,000	10,000		10,000
Administration	362,115	532,138	300,397	231,741
Total Expenditures	1,867,891	2,148,651	1,723,681	424,970
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(583,517)	(759,437)	(107,977)	651,460
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets			727	727
Transfers To Other Funds	(116,483)	(116,483)	(92,932)	23,551
Total Other Financing Sources (Uses)	(116,483)	(116,483)	(92,205)	24,278
Net Changes in Fund Balance	(700,000)	(875,920)	(200,182)	675,738
Fund Balance - Beginning	700,000	875,920	1,172,031	296,111
Fund Balance - Ending	\$ 0	\$ 0	\$ 971,849	\$ 971,849

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 660,669	\$ 919,818	\$ 1,018,405	\$ 98,587
Miscellaneous	9,750	13,717	27,663	13,946
Interest	10,100	10,100	10,572	472
Total Revenues	680,519	943,635	1,056,640	113,005
EXPENDITURES				
Roads	656,253	768,731	672,676	96,055
Administration	224,266	490,392	88,435	401,957
Total Expenditures	880,519	1,259,123	761,111	498,012
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(200,000)	(315,488)	295,529	611,017
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets		23,577	23,955	378
Transfers From Other Funds			432	432
Total Other Financing Sources (Uses)		23,577	24,387	810
Net Changes in Fund Balance	(200,000)	(291,911)	319,916	611,827
Fund Balance - Beginning	200,000	291,911	291,911	
Fund Balance - Ending	\$ 0	\$ 0	\$ 611,827	\$ 611,827

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 58,906	\$ 66,695	\$ 71,515	\$ 4,820
Charges for Services	2,600	5,300	7,025	1,725
Miscellaneous	250	2,110	709	(1,401)
Total Revenues	61,756	74,105	79,249	5,144
EXPENDITURES				
Protection to Persons and Property	154,291	165,291	141,502	23,789
Administration	23,948	26,131	25,050	1,081
Total Expenditures	178,239	191,422	166,552	24,870
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(116,483)	(117,317)	(87,303)	30,014
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	116,483	116,483	92,500	(23,983)
Total Other Financing Sources (Uses)	116,483	116,483	92,500	(23,983)
Net Changes in Fund Balance		(834)	5,197	6,031
Fund Balance - Beginning		834	834	
Fund Balance - Ending	\$ 0	\$ 0	\$ 6,031	\$ 6,031

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

HB 577 Fund				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 60,000	\$ 60,000	\$ 60,030	\$ 30
Interest	1,800	1,800	3,456	1,656
Total Revenues	61,800	61,800	63,486	1,686
EXPENDITURES				
General Government	261,800	287,197		287,197
Total Expenditures	261,800	287,197		287,197
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(200,000)	(225,397)	63,486	288,883
Net Changes in Fund Balances	(200,000)	(225,397)	63,486	288,883
Fund Balances - Beginning	200,000	225,397	225,397	
Fund Balances - Ending	\$ 0	\$ 0	\$ 288,883	\$ 288,883

LYON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

1. Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation of General Fund

Protection to Persons and Property	
Budgetary Basis	\$ 75,462
Plus: Purchase of Sheriff's Vehicles	<u>14,691</u>
Protection to Persons and Property	
Modified Cash Basis	<u><u>90,153</u></u>
Other Financing Sources (Uses)	
Budgetary Basis	(92,205)
Plus: Financing Obligation Proceeds	<u>14,691</u>
Other Financing Sources (Uses)	
Modified Cash Basis	<u><u>\$ (77,514)</u></u>

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LYON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

LYON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Local Government Economic Assistance Fund	Emergency 911 Fund	Poor Farm Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 194,145	\$ 70,128	\$ 37,376	\$ 301,649
Total Assets	<u>\$ 194,145</u>	<u>\$ 70,128</u>	<u>\$ 37,376</u>	<u>\$ 301,649</u>
FUND BALANCES				
Unreserved:				
Special Revenue Fund	\$ 194,145	\$ 70,128	\$ 37,376	\$ 301,649
Total Fund Balances	<u>\$ 194,145</u>	<u>\$ 70,128</u>	<u>\$ 37,376</u>	<u>\$ 301,649</u>

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

LYON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Local Government Economic Assistance Fund	Emergency 911 Fund	Poor Farm Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$ 8,080	\$	\$ 8,080
Intergovernmental	37,298	20,000		57,298
Interest	2,393	808	387	3,588
Total Revenues	<u>39,691</u>	<u>28,888</u>	<u>387</u>	<u>68,966</u>
EXPENDITURES				
Protection to Persons and Property		24,809		24,809
Roads	10,000			10,000
Total Expenditures	<u>10,000</u>	<u>24,809</u>		<u>34,809</u>
Excess of Revenues Over Expenditures	<u>29,691</u>	<u>4,079</u>	<u>387</u>	<u>34,157</u>
Net Change in Fund Balances	29,691	4,079	387	34,157
Fund Balances - Beginning	164,454	66,049	36,989	267,492
Fund Balances - Ending	<u><u>\$ 194,145</u></u>	<u><u>\$ 70,128</u></u>	<u><u>\$ 37,376</u></u>	<u><u>\$ 301,649</u></u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Sara Boyd, Lyon County Judge/Executive
Members of the Lyon County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 22, 2006. Lyon County presents its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lyon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Lyon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 22, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

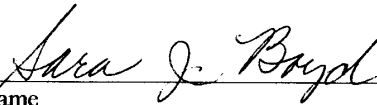
LYON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS
LYON COUNTY FISCAL COURT

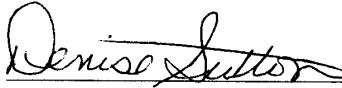
For The Fiscal Year Ended June 30, 2005

The Lyon County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer